

## Message Text

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14

ACTION EUR-25

INFO OCT-01 ADP-00 EB-11 TRSE-00 COME-00 CIAE-00 DODE-00

PM-09 H-02 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

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P 292314 Z MAR 73

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 760

C O N F I D E N T I A L OTTAWA 0747

POUCHED ALL CONSULS IN CANADA

E. O. 11652: GDS

TAGS: PINT, PGOV, CA, MARR, VS

SUBJECT: GOC FACES MAJOR HURDLE ON TAX LEGISLATION

1. THERE IS NOW SOME POSSIBILITY THAT THE MINORITY  
LIBERAL GOVERNMENT OF CANADA MAY FALL WITHIN THE NEXT

2-3 WEEKS OVER THE ISSUE OF CORPORATE TAX CUT LEGIS-  
LATION.

2. FINANCE MINISTER TURNER FIRST PROPOSED CORPORATE  
TAX CUTS IN HIS MAY 1972 BUDGET. DENUNCIATION OF THESE  
TAX CUTS AS " CORPORATE RIP- OFF" BECAME THE FOCAL POINT  
OF THE ELEC CAMPAIGN OF THE LEADER OF THE NEW  
DEMOCRATIC PARTY ( NDP), DAVID LEWIS. WHEN PRESENTING  
HIS FEBRUARY 1973 BUDGET, TURNER REPEATED HIS COMMIT-  
MENT TO THE CORPORATE TAX CUTS. THE NDP, UNDER LEWIS' S  
LEADERSHIP, HS LIKEWISE REITERATED ITS INTENTION TO  
OPPOSE THEM. THE MEASURES WILL REQUIRE PARLIAMENTARY  
APPROVAL, AND THE GOVERNMENT IS UNDER CONSIDERABLE PRESSURE  
TO INTRODUCE THEM IN COMMONS. TAX FORMS INCLUDING THE  
CUTS HAVE BEEN DISTRIBUTED, AND CORPORATIONS PLANNING  
FOR REMAINDER OF 1973 ARE URGING CONFIRMATION THAT CUTS  
WILL BE IMPLEMENTED.

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3. ON MARCH 21, ROBERT STANFIELD, LEADER OF PROGRESSIVE CONSERVATIVE ( PC) OPPOSITION, OFFERED TO SUPPORT TAX CUTS PROVIDED THEY DID NOT EXTEND BEYOND DECEMBER 1973.

STANFIELD' S GESTURE WAS IN PART MOTIVATED BY OPEN LETTER FROM CANADIAN MANUFACTURERS' ASSOCIATION ( CMA)

ASKING ALL PARTIES TO SUPPORT THE CUTS. STANFIELD WAS NETTLED BY CMA' S HAVING PUBLICIZED LETTER BEFORE DELIVERY, BUT OBVIOUSLY FELT NEED FOR FORTHCOMING RESPONSE, VIEW PC' S LINKS WITH AND DEPENDENCE ON BUSINESS COMMUNITY.

4. TURNER, WHO PROBABLY ENJOYS MORE BUSINESS CONFIDENCE THAN MOST GOVERNMENT MINISTERS, INCLUDING PRIME MINISTER TRUDEAU, REJECTED STANFIELD' S PROFFERED COMPROMISE. IN A TORONTO SPEECH MARCH 23, TURNER INSISTED THAT THE CORPORATE TAX CUTS ARE ONLY A FIRST STEP IN A NEW INDUSTRIAL POLICY, AND THAT THEY ARE INTENDED AS " MEDIUM AND LONG- TERM MEASURES." TURNER SAID " WHAT IS AT STAKE IS NOT THE WELFARE OF CORPORATIONS AND THEIR SHAREHOLDERS. AT STAKE IS THE WELFARE OF EVERY CANADIAN... IN VIEW OF WHAT IS AT STAKE, I WOULD THINK THAT ANY MEMBER OF ANY PARTY IN PARLIAMENT WOULD HAVE SERIOUS RESERVATIONS ABOUT PUTTING PARTISAN INTEREST AHEAD OF NATIONAL INTEREST... THAT CONSIDERATION APPLIES WITH PARTICULAR FORCE TO THE CONSERVATIVE PARTY..."

5. IT HAS BEEN AN OPEN SECRET IN OTTAWA THAT TURNER IS AMBITIOUS FOR THE LEADERSHIP OF THE LIBERAL PARTY AND THE PRIME MINISTERSHIP. THERE HAVE ALSO RECENTLY BEEN SYMPTOMS AND RUMORS OF DISARRAY IN CABINET, AND PRIME MINISTER TRUDEAU' S PERSONAL PERFORMANCE HAS BEEN RESERVED AND LACKLUSTER. THESE FACTORS HAVE LED TO SPECULATION THAT THERE MAY BE OPEN WATER BETWEEN TRUDEAU AND TURNER, PARTICULARLY ON THIS ISSUE, AND THAT TURNER MAY BE FORCING THE ISSUE WITHOUT HAVING FULL LIBERAL PARLIAMENTARY CAUCUS AND CABINET SUPPORT. FOLLOWING THIS LINE, TURNER WOULD RESIGN IF REBUFFED, THUS SHAKING GOVERNMENT VIOLENTLY AND PERHAPS BRINGING IT DOWN. IF HE SHOULD SECURE HIS COLLEAGUES BACKING, GOVERNMENT COULD FACE DEFEAT.

6. ANOTHER LINE OF SPECULATION WITH PLAUSIBILITY IS THAT TURNER IS SPEAKING FOR GOVERNMENT, SOLIDLY BEHIND HIM, AND THAT ISSUE MUST IN GOOD CONSCIENCE BE PUT TO  
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COMMONS. IF ACCOMMODATION WITH OPPOSITION NOT FOUND,

GOVERNMENT WOULD FALL, AND LIBERAL PARTY WOULD NOT FEAR TO GO TO COUNTRY WITH GOOD ISSUE WHICH COULD EVEN ATTRACT SOME OF PC CONSTITUENCY.

7. ACCOMMODATION OR COMPROMISE MAY BE MORE UP TO NDP THAN LIBERALS. IT HAS BEEN SUGGESTED THAT, AS ONE WAY AROUND CONFRONTATION, NDP COULD VOTE AGAINST TAX REDUCTION AND THEREAFTER SUPPORT A VOTE OF CONFIDENCE IN LIBERAL GOVERNMENT, A PARLIAMENTARY MANEUVER WITH PRECEDENT OF PEARSON'S "BLACK THURSDAY" TACTIC OF 1968. OR TAX REDUCTION BILL COULD INCLUDE NDP FACE-SAVERS LIKE PROVISION FOR PERIODIC REVIEW, ETC. AS FOR PC, SOURCES IN PARTY TELL US THAT STANFIELD'S OFFER OF LIMITED SUPPORT WAS A CAUCUS DECISION AND THAT PC CAUCUS NOT LIKELY TO GO FURTHER.

8. TAX CUT LEGISLATION PRESENTS THE MOST SERIOUS PARLIAMENTARY PROBLEM THIS LIBERAL GOVERNMENT HAS HAD TO FACE, AND TURNER'S SPEECH APPEARS TO HAVE JOINED THE ISSUE OR AT LEAST MADE THE SITUATION MUCH MORE DIFFICULT. TURNER, APPROPRIATELY, MADE HIS SPEECH AND HIS APPEAL TO CONSERVATIVES, IN TORONTO, ONTARIO, THE CITY AND PROVINCE WHERE THE STAKES ARE CONSIDERED HIGHEST IN THE NEXT ELECTION.  
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